



Insurance Institute
of Michigan

**Presentation to
House Insurance
Committee**

February 22, 2007



Insurance Institute of Michigan

Formed 2003

2/22/2007

Mission

- Serve as the official spokesperson for the property/casualty insurance industry in Michigan
- Assist and educate consumers on insurance issues
- Represent the property/casualty insurance industry on all legislative and regulatory matters

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Membership

- IIM members provide 73% of automobile, 66% homeowners, 35% medical malpractice, and 42% of workers' compensation insurance in Michigan.
 - 40 property/casualty insurance companies operating in Michigan
 - Reinsurers
 - National trade associations
 - Law Firms
 - Technology firms

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Membership

- AAA Michigan
- Accident Fund
- Affirmative Insurance Company
- Allied Insurance
- Allstate Insurance
- American Fellowship Mutual
- Badger Mutual Insurance Company
- DaimlerChrysler Insurance
- EMC Insurance Companies
- Farm Bureau Insurance Group
- Farmers Insurance Group
- Farmers & Merchants Mutual Fire
- Farmers Mutual Fire Ins. Co. of Branch Co.
- Foremost Insurance Company
- Frankenmuth Mutual
- Fremont Insurance Company
- GMAC Insurance Holdings
- Grange Insurance Company
- Great Lakes Casualty
- Hastings Mutual Insurance Co.
- MEEMIC
- Michigan Construction Industry Mutual
- Michigan Millers Mutual
- Nationwide Mutual Insurance Company
- North Pointe Insurance Company
- Northern Mutual Insurance Company
- Ohio Casualty Group
- Pioneer State Mutual
- ProAssurance Corporation
- Professionals Direct Insurance Company
- Progressive Insurance Company
- Retailers Mutual Insurance Company
- Secura Insurance Company
- Star Insurance Company
- State Auto Insurance Company
- State Farm Insurance
- Titan Insurance
- USAA
- Westfield Group
- Wolverine Mutual Insurance Company

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Membership

- American Insurance Association
- American Reinsurance Company
- BF RE Underwriters, LLC
- Benfield
- Donno Reinsurance Corporation
- Gallagher RE, Inc.
- Gen Se
- Guy Carpenter & Company
- Mutual Reinsurance Bureau
- National Association of Mutual Insurance Co.
- Property Casualty Insurers Assn. of America
- Reinsurance Association of America
- Swiss Re
- Towers Perrin Reinsurance
- Willis Re Inc.
- ASU Group
- Belfor USA
- Brown Rehab and Review Management
- ChoicePoint
- Coach's Catastrophe Cleaning & Restoration
- Cummings, McCloy, Davis & Ache, PLC
- Diversified Glass/Great Lakes Claim Service
- Enterprise Rent-A-Car
- Foster, Swift, Collins & Smith
- Glasgow & Associates Claims Services, Inc.
- Hamdon & Associates
- Hopkins, Curran & Smith, PLLC
- ImageSoft, Inc.
- Insurance Services Office
- Jarvis Construction
- Kerby, Bailey and Associates
- Keystone Automotive Industries, Inc.
- Lake Michigan Millers, Inc.
- Latitude Subrogation Services
- Manageability, Inc.
- MedAudit Services
- Mitchell Medical
- National Insurance Crime Bureau
- PPOH
- Pro-Tech Auction, Inc.
- Patrick, Johnson & Mott P.C.
- Raftery and Associates, P.C.
- ReviewWorks
- Secret Wardle
- Signal Building Company
- Software AG
- Transitions, LLC
- Vision Restoration and Building Company
- Wellingham & Cole
- Zausmer, Kaufman, August & Caldwell

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Consumer Programs

- Toll-Free Consumer Hotline,
1-800-777-8005
 - 400 calls per month
 - 97 percent of calls handled by in-house specialist
 - Advertised in all major telephone directories

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Consumer Programs

- Seminar for Teachers
- Speakers For Classrooms, Civic Groups
- Free Video Loan Library

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Government Affairs Programs

- Liaison between property/casualty insurance companies and state government.
 - Testify at committee hearings
 - Meet with legislators and staff
 - Work closely with Office of Financial and Insurance Services, Bureau of Workers' Compensation, Secretary of State and Attorney General
 - Background information on key insurance topics.
 - Involvement in legal actions expected to have significant impact on property/casualty industry

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Media Programs

- A ready source for accurate, factual information on property/casualty industry.
 - News releases on timely issues impacting consumers
 - Comprehensive website with background information on key insurance topics (www.iiminfo.org)
 - Public awareness campaigns that focus on deterrence and prevention factors that inflate insurance rates, such as insurance fraud and arson

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Partnerships

- IIM works with other groups to promote safety and a greater understanding of how insurance works
 - Michigan Arson Prevention Committee
 - Michigan Committee for Severe Weather Awareness
 - Michigan Deer Crash Coalition

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2007 Legislative Priorities

- Taxation
 - Work with Legislature to maintain fair tax system for insurance companies
- Credit Scoring Regulation
 - Support legislation (HB 4070) to regulate use of credit scoring in Michigan
- No-Fault Reform
 - Work proactively to reduce costs that drive the price of auto insurance in Michigan

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Taxation of Insurance Companies

Domestic insurance companies pay the Single Business Tax. Foreign insurance companies (companies not headquartered in Michigan) pay the SBT or retaliatory tax, whichever is greater.

Michigan Single Business Tax Collection FY2005 (including SBT/Retaliatory taxes paid by insurance carriers)	\$2,156,714,000
Single Business/Retaliatory taxes paid by insurance companies in Michigan in FY2005	249,524,000
Percent of SBT paid by insurance companies FY'05	12%
*Special assessments paid or incurred by property/casualty insurance carriers operating in Michigan in 2005	140,108,000
Licensing and regulation fees paid to state in FY'05	5,012,171
Assessment paid in FY'05 to fund Michigan Office of Financial and Insurance Services	8,042,623
Bottom Line	\$403,686,794

*Tax credits are available for some of the special funds
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State Mandated Programs

Special assessments and other costs paid or incurred by insurance companies for state mandated funds and special programs in 2005:

*Michigan Automobile Insurance Placement Facility	(15,300,000)
*Michigan Workers' Compensation Placement Facility	5,232,000
*Michigan Basic Property Insurance Association	-0-
Automobile Theft Prevention Authority	6,387,000
Assigned Claims Facility	117,585,000
Silicosis, Dust Disease and Logging Industry Compensation	1,112,000
Second Injury Fund	8,649,000
Safety Education & Training Fund	3,843,000
*Michigan Property & Casualty Guaranty Association	12,600,000
*Michigan Life/Health Guaranty Association	-0-
Total	\$140,108,000

* Credits against tax liability allowed for assessments by these funds

**50% credit allowed against tax liability for this assessment

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Taxation: A Fair Share

	Statewide	Insurance	% of Total
■ Labor Force	3,664,372	56,286	1.2%
■ Establishment	248,718	5,654	2.2%
■ Annual Payroll	40,077,505	808,760	2.0%
(000 omitted)			
■ SBT Collections	2,156,714	249,524	12.0%
(000 omitted)			

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Taxation Priorities

- Maintain current taxation structure based on premiums
- Retain existing credits for mandatory contributions to state-mandated programs
- Retain current tax rate of 1.0735%

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Insurance Credit Scoring

- Two-thirds policyholders benefit from insurance credit scoring
- Strong correlation between insurance credit scoring and likelihood of loss confirmed by multiple studies
- Voters reject ballot initiative in Oregon to ban use of credit

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Insurance Credit Scoring: Fair Regulation

- Michigan currently limits use of credit, compared to other states
- 26 states have enacted laws or regulations on credit based largely on the NCOIL model law
- Support House Bill 4070 based on NCOIL model law

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Insurance Credit Scoring

- House Bill 4070 would:
 - ✓ Require disclosure that credit will be used
 - ✓ Require notification in the event of adverse action
 - ✓ Prohibit insurers from canceling or non-renewing based on credit
 - ✓ Require recalculation if requested by insured
 - ✓ Prohibit the use of multiple lender inquiries, collection accounts with medical codes and credit inquiries not initiated or requested by consumer as negative factors

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No-Fault vs. Tort

- 12 states and Puerto Rico have some type of no-fault system, compared to 38 tort states
- A person's own insurance company pays his/her benefits, regardless who is at fault
- Prompt payment to injured persons
- Requires a balance between prompt payments in exchange for limits on lawsuits

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Michigan No-Fault: Unmatched Benefits

- Enacted in 1973 in Michigan
- Has most generous medical benefits in the country – unlimited, lifetime
- Has three years of lost wages and replacement costs
- Permits lawsuits only under certain circumstances

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Michigan No-Fault: A Balancing Act

- Immediate and comprehensive PIP benefits in exchange for limits on pain and suffering awards
- Limits needed to maintain insurance coverage at an affordable level
- Supreme Court decision in *Kreiner* affirmed existing threshold and gave lower courts clear framework for analysis
- Lowering the threshold as proposed by House Bill 4301 will create significant increase in costs and rates

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Michigan No-Fault: The Cost

COST PER AUTO INSURANCE CLAIM – MICHIGAN

Average cost of a paid claim – by coverage

Coverage	1996	2006	% Increase
Collision	\$2,125	\$2,730	28%
Comprehensive	\$ 864	\$1,106	28%
PIP	\$8,214	\$26,744	225%
BI Liability	\$21,376	\$33,740	57%
Property Protection	\$1,189	\$1,949	64%

Collision – pays for vehicle damage sustained in collisions;

Comprehensive – pays for vehicle damage resulting from other causes, such as theft and fire;

Personal Injury Protection – pays for hospital/medical expenses and work loss benefits;

Property Protection – pays for damage caused by your car to property of others, regardless of fault;

Bodily Injury Liability – coverage for lawsuits and other legal responsibilities resulting from an auto accident.

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Rates Trending Downward

- After 10 years of “unusually unprofitable period, with loss ratios above historical averages” (OFIS Data Call Report, 2005), which led to rate increases, auto and home insurance rates are now going down

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2006 Rates

Auto Insurance Rates of Top 10 dropped
2 percent

Home Insurance Rates of Top 10 declined
.5 percent

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Looking For Solutions

The insurance industry faces continued criticism to bring rates down, but at the same time:

- Calls for increased taxes
- Proposals for expansion of litigation for pain & suffering awards
- Demand for higher reimbursements and expanded coverage from medical community

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No-Fault: Cost Factors

The only way to address the cost of insurance is to address the underlying costs of the things that insurance pays for:

Auto Repair
Medical Costs
Lawsuits
Auto Theft
Fraud

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No-Fault: Legislative Solutions

- PIP Choice
- Attendant Care Cost
- Senior Carve Out
- Medical Fee Schedules
- Managed Care Options
- Prompt Billing
- Fraud Fighting Programs
- Maintain Current Verbal Tort Threshold

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